

The seventh of the IFRS Digital Reporting (XBRL) Mini-Workshop

Jan 29th 2016

- Date: January 29th Friday 18:30-20:00
- Topic: Improve usability of Disclosure and Common practice accounting items
-- Taxonomy due process --

There are two types of common practice items;

- Generally used accounting item name, but not written in the Standards.
- Anticipated common practice, which will be used for new (amendment) standards.

Both are very important issues for disclosure.

Because IFRS allows flexibility, there is diversity in expression of the financial statement. Especially about names of accounting items. However data user rely on the names to understand the definitions of the items.

At the same time, those company's own expressions, translation issues were also involved. So this time, we have a special program.

Joint research related to different perception in different language by Korea and Australia will be shared by KASB.

■ Agenda

1. Discussion for taxonomy due process

Taxonomy Due process request for comment

Mr. Takemura from the IFRS Foundation

2. Case study IFRS disclosure of Japanese companies.

Compare accounting item name which is translated from Standard / disclosed by company.

3. Issues for data users.

From previous workshops. (Mr. Hirota Toyo Keizai introduce)

- "Goodwill and intangible assets"

Goodwill is a part of intangible assets?

- "operating income's which have different meanings

Mr. Ishihara introduce Other Korean discussion.

4. Example of standards and current Japanese company's disclosure.

- Many companies present SG&A instead of "Distribution costs" and "Administrative expenses".

- Other components of equity, (“Other reserves” is more common except in Japan.).

5. Research by Korea and Australia.

Accounting judgments on terms of likelihood under IFRS: Korea and Australia

Presented by KASB Vive Chair Mr. Sungsoo Kwon

6. Discussion

■ Documents

Agenda (included Document 0)

Document 1 Taxonomy Due process request for comment

<http://www.ifrs.org/DPOC/Documents/Invitation%20to%20Comment%20IFRS%20Taxonomy%20Due%20Process.pdf>

Document 2 Case study of a Japanese company’s disclosure

Document 3 [4th workshop] Operating Income” of Japanese IFRS adoption companies

Document 4 [5th workshop] Pattern Analysis of IFRS Adoption companies’ disclosure; “Goodwill”

Document 5 Example Japanese IFRS adopters disclosure

Document 6 Joint research by Korea and Australia

Accounting judgments on terms of likelihood under IFRS: Korea and Australia

Document 7. ED of IAS7 amendment April 2015

Document 8. IFRS Taxonomy Illustrated (some pages, as example)

Document 9 Disclosure of operating profit or loss By KASB

Document 10 September 2015 Board Meeting AP11D-Disclosure-Initiative

1. Taxonomy Due process request for comment

Presented by Mr.Takemura IFRS

Document 1. Taxonomy Due process request for comment

Document 8 The IFRS® Taxonomy Illustrated (some pages)

- What is the “Taxonomy Due Process” ?
- Summary of this proposal
 - *Regarding “Common Practice items” , it will be reviewed by 3-5 members (Not getting an approval by Board member)

● Major discussion of ITCG (IFRS Taxonomy Consultative Group) and XAC (Predecessor of ITCG)

As understood by an ITCG member

1. Start of the development of the Common Practice items

Until 2010, IFRS taxonomy had been focusing on the Standards. (only the Standards and Illustrative Examples). However the need to create more tags to address the diversity in the actual financial statements was recognized. So in 2011, IASB started to develop the Common practice items.

2. Inside and outside of the ITCG, people became concerned about a risk that the common practice might create a second standard. As the result, the need to ensure that the common practice items do not create unintended interpretations was recognized.

3. Filing projects such as EDINET or HMRC in UK investigate all the in-scope companies and pick up good practice examples as “common practice”. Currently the Foundation’s Taxonomy team says they do not judge whether a certain practice is a good practice or not.

[310000] Statement of comprehensive income, profit or loss, by function of expense		Accounting item name and the IFRS standard
Profit or loss [abstract]		
Profit (loss) [abstract]		
Revenue	X duration, credit	IAS 1.102 Example, IAS 1.103 Example, IAS 1.82 a Disclosure, IAS 18.35 b Disclosure, IFRS 12.B10 b Example, IFRS 12.B12 b (v) Disclosure, IFRS 8.23 a Disclosure, IFRS 8.28 a Disclosure, IFRS 8.32 Disclosure, IFRS 8.33 a Disclosure, IFRS 8.34 Disclosure
Cost of sales	(X) duration, debit	IAS 1.103 Disclosure, IAS 1.99 Disclosure
Gross profit	X duration, credit	IAS 1.103 Example
Other income	X duration, credit	IAS 1.102 Example, IAS 1.103 Example, IAS 26.35 b (iv) Disclosure
Distribution costs	(X) duration, debit	IAS 1.103 Example, IAS 1.99 Disclosure
Administrative expenses	(X) duration, debit	IAS 1.103 Example, IAS 1.99 Disclosure, IAS 26.35 b (vi) Disclosure
Other expense	(X) duration, debit	IAS 1.103 Example, IAS 1.99 Disclosure, IAS 26.35 b (vii) Disclosure
Other gains (losses)	X duration, credit	IAS 1.102 Common practice, IAS 1.103 Common practice

2. Case study IFRS disclosure of Japanese companies.

Document 2: Case study for the examples of accounting items in comparison with IFRS taxonomy (which is official translation from the Standards)

■ Diversity in IFRS disclosures

Comments from information providers and buyside analysts who attended autumn 2013 seminar for new EDIENT. (IFRS Adopters in Japan were 10 companies at that time)

“The way of disclosure (granularity and/or definitions of accounting items) and accounting item names are different by each company”

“Now we are studying on each company, making a mapping list. If we have many IFRS adopters, making such a list will be unrealistic.”

Jan 2016, 71 companies (exclude Adoption plan 25, total 96)

Current Situation:

“In case of our company, IFRS adoption companies are treated as same as other companies on our database. So we are aggregating data for our data base which was designed for originally J-GAAP companies. We ask to the accounting firm to check the correctness of our aggregation each company case. Company perspective are also stored for the information for data users.

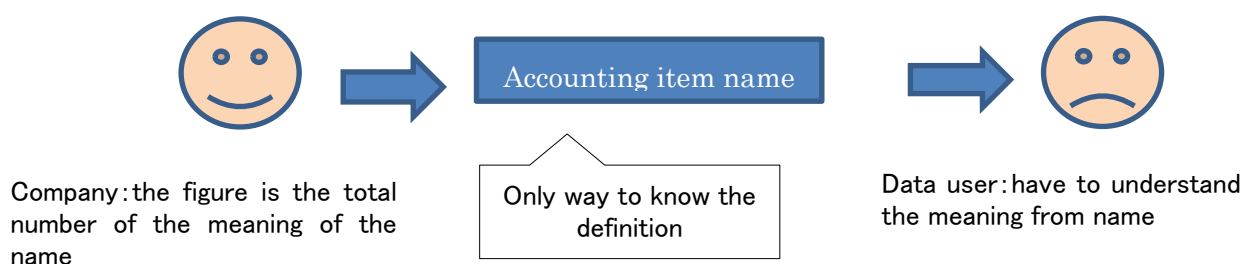
■ Relationship between accounting item names based on IFRS standards and disclosure

IFRS Taxonomy team is collecting as items of taxonomy accounting item names referred to in the Standards, also those shown in Illustrative Examples. In addition, the team is collecting those which are commonly used in actual disclosure. (Document8)

ASBJ provides Japanese Label (Japanese accounting item’s name), which is consistent with the official translation of the standards (Bound Volume).

Data user expected the disclosure would be same as Japanese label of IFRS taxonomy which was prepared based on the Standards or Illustrative Examples. But now we realized that companies’ disclosure is not like that. Document1 is an IFRS adopter’s case. This is the list which shows that the labels are overwritten because the account names are different from the taxonomy.

As shown in Document1, if an information user understands Japanese language and business practice, it might be understood. However, yellow highlighted ones have some risk of misunderstanding. Especially if original accounting item includes “and other”.



Our past workshop which was held at 2010.

“Which data you will take, when you calculate some indicator to use “revenue (Net sales)?”

(Case study, how to difficult to pick-up data from original financial statement)

		前事業年度 (自 平成19年4月1日 至 平成20年3月31日)	当事業年度 (自 平成20年4月1日 至 平成21年3月31日)
		This year	Previous year
■ 事例1 Example1			
営業収益			
売上高	Operating revenue	—	151,451
受取配当金	Net sales	※1 15,624	9,433
経営管理料	Cost or management	※1 2,769	2,617
営業収益合計	Total of operating revenue	18,394	163,502
売上原価	Cost of Sales	—	50,021
■ 事例2 Example2			
		前事業年度 (自 平成19年4月1日 至 平成20年3月31日)	当事業年度 (自 平成20年4月1日 至 平成21年3月31日)
		This year	Previous year
売上高	Net sales	286,281	37,392
売上原価	Cost of sales	124,149	6,058
ソフトウェア事業売上総利益	Net income from software business	162,131	31,334
販売費及び一般管理費	Cost of SG&A		
役員報酬	Executive compensation	9,900	2,400
給与手当	Salaries and allowances	52,640	20,678
法定福利費	・	8,937	2,313
賞与引当金繰入額	・	1,868	—
賃借料		—	3,359
旅費及び交通費		14,931	3,721
手数料		22,412	7,978
研究開発費	※1	7,518	—
減価償却費		5,323	1,580
その他		51,960	9,167
販売費及び一般管理費合計		175,491	51,200
ソフトウェア事業営業損失 (△)		△13,360	△19,865
営業収益		—	126,356

Generally, in case of the Example1, the “total operating revenue” must be taken, Example 2, “net sales” should be taken.

However, there are no strong consensus to use the name.

3. Issue for Data user. Why accounting item's name are important

Sharing past workshop discussion.... Presented by Mr.Hirota from ToyoKeizai

Document 4 [5th workshop] Pattern Analysis of IFRS Adopters' presentation of "Goodwill"

Some companies present "intangible asset" which they believe includes goodwill. Others present "intangible assets" and "goodwill" separately. Company can have different choices, but users don't know.

For example, if data user wants to analyze Goodwill, this diversity in disclosure creates a difficulty.

Data user has to check footnotes. (To avoid failing to capture the cases including goodwill)

- ◇ As for XBRL issue, tagging on the financial statements without any guidance or clear rule, company may choose tags based on their interpretations, so data users cannot use them or have a risk of misunderstanding.

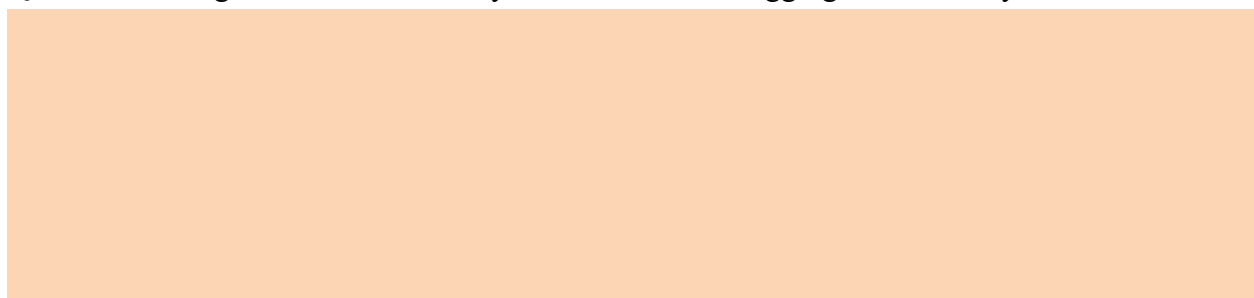
Document 3 [4th workshop] Operating Income" of IFRS adopters in Japan

- There are some different definitions of "Operating income" . Different companies present "profit from operating activities" or "Operating income" with different definitions.

Data user cannot use this data without checking the financial statements. Location on the statements (what is included or excluded), footnote, etc

- ◇ The same XBRL issue as "Operating income" above
- ◇ Introduction Korea case about operating income. Introduced by Ishihara-san

Question: Asking data user, which way of disclosure and tagging is better for you?



4. Effect from Illustrative examples

• The case where companies didn't disclose in the same manner as Illustrative Example (The following figure from Webpage of IASB)

On the Example, Distribution costs and Administrative expenses are presented separately.

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7		
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)		
(in thousands of currency units)		
	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(238,000)	(219,500)
Gross profit	152,000	135,500
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(15,000)	(18,000)
Share of profit of associates ^(a)	35,100	30,100
Profit before tax	161,667	128,000

However, many Japanese companies present “SG&A”. (see Document5)

Discussion

- What kind of disclosure is better regarding “Distribution costs” and “Administrative expenses” in user perspective?
 - Why many Japanese companies present SG&A? How about the practice in other countries?
 - Example is a good practice of disclosure?
- ✧ (As for XBRL) Those responsible for taxonomy development (IFRS Foundation, regulators, etc.) had better consider those issues above when they add common practice items in their taxonomy. Because common practice items may be deemed as an authorized way to disclose.

• **Effect of Illustrative Examples on companies' disclosure in local language.**

On the Example, the name of accounting item is "Other components of equity".

XYZ Group – Statement of financial position as at 31 December 20X7		
(in thousands of currency units)		
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	<hr/>	<hr/>
	903,700	782,900
Non-controlling interests	70,050	48,600
	<hr/>	<hr/>
Total equity	973,750	831,500
	<hr/>	<hr/>

Many Japanese companies present in the same manner as Example. (see Document5)

However, IFRS taxonomy does not have an element which is named "Other components of equity". There is an element named "Other reserves" instead.

Because many European companies present "Other reserves".

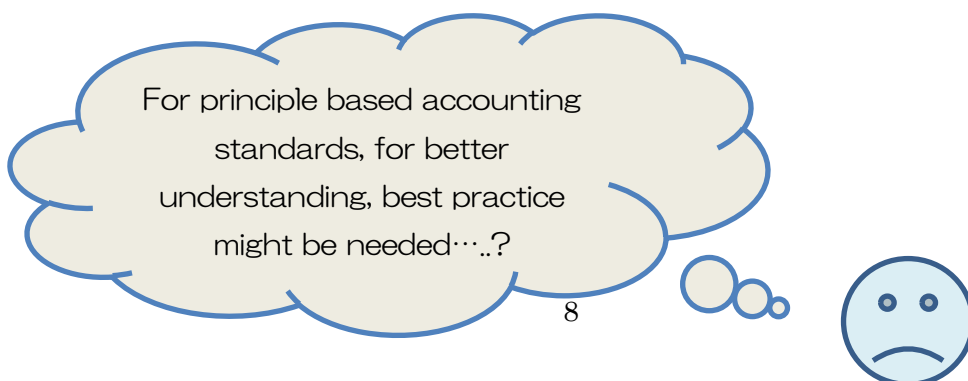
Discussion

- Why many companies present "other reserve" which is not shown in the Example?
- Why only Japanese companies use "Other components of equity"?
- Is there any conceptual difference between "other reserve" and "other components of equity"?

• **Other case:**

"Other equity interest" is defined as "equity interest of an entity without share capital" in IFRS Taxonomy.

- It seems difficult to know this definition from the wording "other equity interest".
- Isn't it a problem for comparability of IFRS?



6. Discussion

Q1. Do we need some way to misunderstand if different companies used same accounting item name in different meaning? Though IFRS is principle base, don't we need at least some rules for accounting item name?

Q2. Even if we should avoid boilerplate explanation, don't we need good-practice for appropriate explanation in the whole companies?

Q3. Example/ common practice should be Good practice?

Q4. Other

About XBRL-- Some opinions / Comments

- As we saw in the comments to IFRS Taxonomy due process trial using proposed amendment to IAS7, it is better to discuss more about Examples rather than developing common practice directly in case of amendment/ new standard? (Common practice before starting disclosure would be “anticipated common practice”)
- When developing common practice in local language, research of disclosures in local language is needed. (Because financial statements are prepared and filed in local language)

Document 0

◇ EDINET submission rules

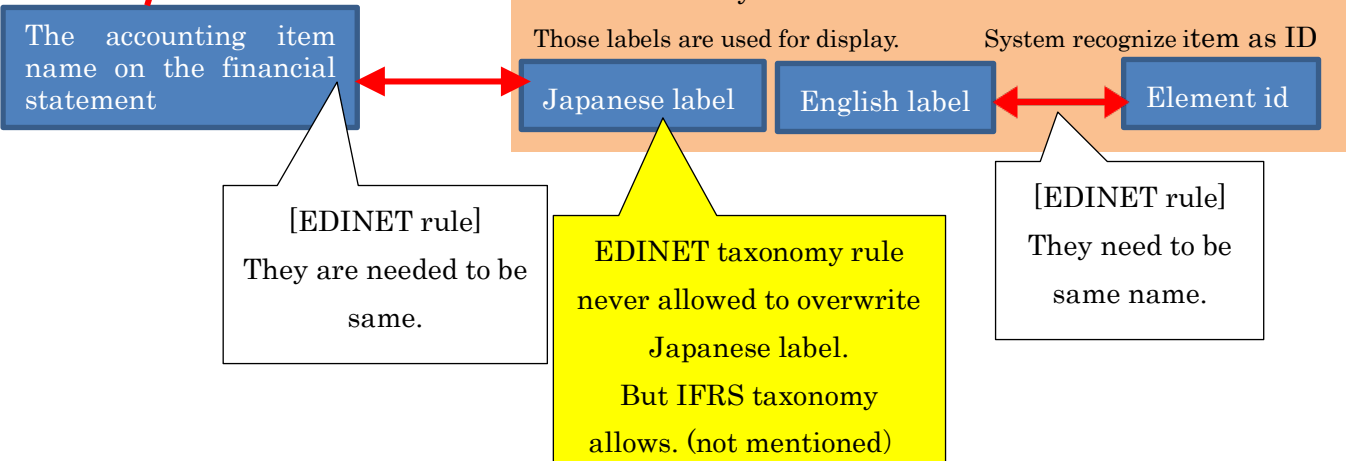
When company submits in XBRL, the label of taxonomy must be completely the same as what company disclosed on the audited financial statement. So company needs to select the same name from standard taxonomy.

If company wants to use a unique account name, the company has to create an extended element. Overwriting label (to select different name item from standard taxonomy) is not allowed in the EDINET rule.

Submission file for EDINET

科目名	期末残高	期末変動
現金及び預金	9,105	26,489
現金	80,212	80,212
現金当座預金	81,107	80,993
預金	81,107	118,318
当座預金	-	10,769
定期預金	-	10,764
商品	859	934
仕掛品	404	354
製造原価	9,274	4,270
繰越剰余金	1,215	3,144
短期借入金繰上金	-	7,164
その他	728	3,880
貸倒引当金	2,680	2,680
繰越剰余金合計	100,112	290,916
固定資産		
有形固定資産	82,467	87,292
建物及び構築物		
取得費	244,494	△38,110
減価償却累計額	162,027	162,027
建物及び構築物(純額)	82,467	25,175
機械及び装置	81,893	
取得費	△10,117	
減価償却累計額	9,214	
機械及び装置(純額)	72,679	
工具、器具及び備品	27,244	
取得費	△10,117	

Data is tagged, but the name of accounting item is not tagged.



The reason why EDINET prohibits overwriting account names:

IT system recognizes items using element ID. (For example, when EDINET validates submission files, or when user takes data by IT applications, those systems use element id)

If company overwrites Japanese label, IT system may take different items as the same even though they have different names on the financial statements. Overwriting creates a risk of misunderstanding (mistake calculation). When data will be used in real-time and influence on the stock price, the risk will be large.